

HOPE ENTERPRISE CORPORATION
(Formerly, Enterprise Corporation of the Delta)

Consolidated Financial Statements
with Supplementary Information
Years Ended December 31, 2010 and 2009

Hope Enterprise Corporation
(Formerly, Enterprise Corporation of the Delta)

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December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hope Enterprise Corporation
Jackson, Mississippi

We have audited the accompanying consolidated statement of financial position of Hope Enterprise Corporation (formerly, Enterprise Corporation of the Delta) and entities under its control ("the Company") as of December 31, 2010, and the related consolidated statements of activities and changes in net assets and of cash flows for the year then ended. These financial statements and the supplementary information referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Company's 2009 consolidated financial statements and, in our report dated May 24, 2010, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2010, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2011 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements for the year ended December 31, 2010, taken as a whole. The supplementary schedule of expenditures of federal awards on pages 19 - 20 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
August 19, 2011

Hope Enterprise Corporation

(Formerly, Enterprise Corporation of the Delta)

Consolidated Statements of Financial Position

December 31,	2010	2009
Assets		
Cash and cash equivalents	\$ 12,461,383	\$ 8,468,274
Short-term investments	100,000	100,000
Grants receivable	618,183	1,591,241
Contract revenue receivable	260,025	424,092
Loan receivable from affiliate	3,215,000	3,215,000
Consumer mortgage loans held for sale	3,539,409	4,197,702
Other loans - net of allowance for loan losses of approximately \$1,605,000 (2010) and \$2,178,000 (2009)	37,494,537	27,781,796
Loan guarantees receivable from Small Business Administration	664,687	554,509
Debt securities held as investments	3,214,776	3,463,983
Cash restricted for collateral on subsidiary's note	2,741,200	2,740,090
Investment in secondary capital of Hope Federal Credit Union	13,116,430	13,116,430
Property and equipment, net	2,364,704	2,302,522
Foreclosed property	822,791	2,874,067
Other assets	1,236,438	500,754
Total assets	\$ 81,849,563	\$ 71,330,460
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,143,759	\$ 1,112,183
Securities sold under agreements to repurchase	845,000	1,000,000
Payable to Hope Federal Credit Union	1,324,561	726,293
Funds held in escrow	3,187,790	3,187,715
Notes payable	22,651,121	20,840,200
Total liabilities	29,152,231	26,866,391
Commitments and contingencies (Note 6)		
Net assets:		
Unrestricted	17,460,642	18,242,637
Non-controlling interest in ECDI	1,969,842	1,541,068
Non-controlling interest in ECDA	6,290,143	6,114,134
Non-controlling interest in ECD Plus	7,645,779	7,733,424
Non-controlling interest in ECD First	2,374,262	2,388,028
Non-controlling interest in ECD Central	5,000,000	5,000,000
Non-controlling interest in ECDNM3	8,776,847	-
Total non-controlling interests	32,056,873	22,776,654
Total unrestricted	49,517,515	41,019,291
Temporarily restricted	2,487,305	2,752,266
Permanently restricted	692,512	692,512
Total net assets	52,697,332	44,464,069
Total liabilities and net assets	\$ 81,849,563	\$ 71,330,460

See notes to consolidated financial statements.

Hope Enterprise Corporation

(Formerly, Enterprise Corporation of the Delta)

Consolidated Statement of Activities and Changes in Net Assets

Year ended December 31, 2010 with summarized
financial information for the year ended December 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009 Total
Revenues and gains					
Grants and contributions	\$ 4,799,353	\$ 1,030,000	\$ -	\$ 5,829,353	\$ 4,797,121
In-kind contributions	37,950	-	-	37,950	20,600
Interest, dividends and related fees:					
Loans and other investments	1,952,133	-	-	1,952,133	2,183,388
Debt securities and cash equivalents	381,541	-	-	381,541	383,710
Net realized and unrealized gains (losses)					
on debt securities available-for-sale	(8,392)	-	-	(8,392)	40,294
Gain on sale of foreclosed property	59,159	-	-	59,159	-
Gain on extinguishment of debt	-	-	-	-	333,152
Contract services revenue	2,183,637	-	-	2,183,637	4,153,207
Other income	92,484	-	-	92,484	-
	9,497,865	1,030,000	-	10,527,865	11,911,472
Net assets released from restrictions:					
Satisfaction of program restrictions	1,294,961	(1,294,961)	-	-	-
Total revenues and gains	10,792,826	(264,961)	-	10,527,865	11,911,472
Expenses					
Program expenses:					
Development finance	2,317,691	-	-	2,317,691	4,165,787
Housing initiative	429,241	-	-	429,241	926,022
Hope Federal Credit Union	2,804,000	-	-	2,804,000	5,157,012
Katrina recovery	265,062	-	-	265,062	248,093
Other programs	2,923,439	-	-	2,923,439	4,905,055
	8,739,433	-	-	8,739,433	15,401,969
General administration:					
General and administration expense	1,820,416	-	-	1,820,416	1,612,292
Fund-raising and communication	140,216	-	-	140,216	126,755
Total expenses	10,700,065	-	-	10,700,065	17,141,016
Change in net assets before					
non-controlling interest	92,761	(264,961)	-	(172,200)	(5,229,544)
Non-controlling interests in subsidiaries' income	(874,756)	-	-	(874,756)	(427,444)
Change in net assets attributable					
to controlling interest	(781,995)	(264,961)	-	(1,046,956)	(5,656,988)
Net assets attributable to controlling interests:					
At beginning of year	18,242,637	2,752,266	692,512	21,687,415	27,344,403
At end of year	17,460,642	2,487,305	692,512	20,640,459	21,687,415
Net assets of non-controlling interests (Note 12)	32,056,873	-	-	32,056,873	22,776,654
Total net assets at end of year	\$ 49,517,515	\$ 2,487,305	\$ 692,512	\$ 52,697,332	\$ 44,464,069

See notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

<i>Years ended December 31,</i>	2010	2009
Operating activities		
Change in net assets attributable to controlling interest	\$ (1,046,956)	\$ (5,656,988)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-controlling interests in subsidiaries' income	874,756	427,444
Depreciation and amortization	455,095	459,885
Gain on extinguishment of debt	-	(333,152)
Provision (reduction in reserve) for loan losses	(202,202)	715,555
Impairment losses, net of gains on sale of foreclosed property	699,925	711,320
Realized and unrealized loss (gain) on investments	8,392	(40,294)
Amortization of premiums (accretion of discounts) on investments	(1,142)	2,115
Proceeds from sales of mortgage loans held for sale	573,753	2,141,155
Purchases and originations of mortgage loans held for sale	-	(139,900)
Changes in operating assets and liabilities:		
Contract revenue receivable	164,067	2,509,962
Grants receivable	198,058	338,631
Loan guarantees receivable	(9,726)	-
Other receivables and prepaid expenses	32,293	(113,410)
Accounts payable and other liabilities	629,844	(638,157)
Net cash provided by operating activities	2,376,157	384,166
Investing activities		
Net increase in loans held for investment	(9,593,929)	(6,134,766)
Purchases of investments	(3,101,288)	(2,000,345)
Proceeds from maturities and sales of investments	3,343,245	2,559,441
Decrease in restricted cash held in escrow	(1,110)	(2,361)
Proceeds from sales of foreclosed property	1,418,829	131,340
Purchase of property and equipment	(510,179)	(153,213)
Net cash used in investing activities	(8,444,432)	(5,599,904)
Financing activities		
Capital contributions by non-controlling interests	9,000,000	5,000,000
Cash dividends paid to non-controlling interests	(594,537)	(360,109)
Payments on borrowings under agreements to repurchase	(155,000)	-
Long-term borrowings	3,752,900	-
Payments on long-term borrowings	(1,941,979)	(1,872,960)
Net cash provided by financing activities	10,061,384	2,766,931
Net increase (decrease) in cash and cash equivalents	3,993,109	(2,448,807)
Cash and cash equivalents, beginning of year	8,468,274	10,917,081
Cash and cash equivalents, end of year	\$ 12,461,383	\$ 8,468,274
Supplemental disclosure of noncash investing and financing activities:		
Property received upon foreclosure on loans	\$ 167,931	\$ 666,671
Transfers to loan guarantees receivable	\$ 100,452	\$ 544,509

See notes to consolidated financial statements.

Hope Enterprise Corporation (Formerly, Enterprise Corporation of the Delta)

Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Company

Hope Enterprise Corporation (formerly, Enterprise Corporation of the Delta) (the "Company") was incorporated in 1994 as a not-for-profit development financial corporation serving Arkansas, Louisiana and Mississippi. The goal of the Company is to improve the regional economy through investment, jobs and growth. The services of the Company include financing, management assistance, financial counseling and market development and are designed to support business creation and expansion, homeownership and community development. Effective January 1, 2011, the Company changed its name to Hope Enterprise Corporation to closer align itself with the relationship to Hope Federal Credit Union (Hope).

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company, ECD Investments, LLC (ECDI), ECD Investments BIDCO, Inc. (BIDCO), Home Again, Inc. (Home Again), Mid-Delta Community and Individual Investment Company (MDCIIC), ECD Associates, LLC (ECDA), ECD New Markets, LLC (ECDNM), ECD First Commercial, LLC (ECD First), ECD Plus, LLC (ECD Plus), ECD Central City, LLC (ECD Central), and ECD New Markets 3, LLC (ECDNM3). Significant intercompany transactions and balances have been eliminated in consolidation. The preparation of such consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The allowance for loan losses and the valuation of foreclosed property and investments are determined utilizing material estimates that are particularly susceptible to change in the near term.

ECDI is a limited liability company subsidiary of Enterprise Corporation of the Delta and owns the corporate stock of BIDCO. The purpose of ECDI and BIDCO is the same as that of the Company. Home Again is a non-profit organization in which the Company serves as the primary sponsor and also controls the Board of Directors. Home Again provides mortgage financing and recovery consultation services to eligible people in the coastal region of Mississippi in the aftermath of Hurricane Katrina. MDCIIC is a Mississippi corporation that provides loans and technical assistance to small businesses in a six county service area in the delta region of Mississippi.

The remaining six limited liability companies included in the consolidated financial statements of the Company are ECDA, ECDNM, ECD First, ECD Plus, ECD Central and ECDNM3. ECDA and ECDNM began operations in 2004, ECD First and ECD Plus began operations in 2007, ECD Central began operations in 2009, and ECDNM3 began operations in 2010. The Company serves as the Managing Member of all six entities. Debt and equity funding into ECDA and ECDNM are used for secondary capital loans and contributions to Hope. ECDA, ECDNM, ECD Plus, ECD First, ECD Central and ECDNM3 are Community Development Entities created for investors to benefit from the New Markets Tax Credit program administered by the U.S. Department of the Treasury. Substantially all of the qualified equity investments must be in turn used to provide available investment capital to low-income communities. After the credit investment period expires (seven years) loan amounts repaid revert to the benefit of the Company.

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Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Although not included in the consolidated financial statements, the Company is also the primary sponsor of Hope. Under the terms of contractual arrangements, the Company has agreed to reimburse Hope for certain operating expenses and for certain losses incurred on loans considered to be higher risk than typically underwritten by regulated financial institutions such as Hope. Such obligations are limited so as to not provide Hope monthly net income of more than \$30,000. Hope and the Company share the same members of management and certain Hope members are also borrowers from the Company and its affiliates.

The net assets of the Company are reported as unrestricted, temporarily restricted or permanently restricted. Restricted net assets are created by donor-imposed restrictions on their use. All other net assets are legally unrestricted and are therefore reported as unrestricted net assets. Temporarily restricted net assets are grants restricted to and intended for support of future operations and/or specific programs. Permanently restricted net assets are grants donated as permanent revolving loan funds.

In connection with the preparation of the consolidated financial statements, management of the Company evaluated subsequent events through April 4, 2011, which was the date the consolidated financial statements were available to be issued.

Fair Value Measurements

The Company utilizes a fair value hierarchy for measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs. Three levels of inputs are used to measure fair value:

- Level 1** Valuations based on unadjusted quoted prices for identical assets in active markets accessible at the measurement date.
- Level 2** Valuations derived for similar assets in active markets, or other inputs that are observable or can be corroborated by market data.
- Level 3** Valuations derived from unobservable (supported by little or no market activity) inputs that reflect an entity's best estimate of what hypothetical market participants would use to determine a transaction price at the reporting date.

When quoted market prices in active markets are unavailable, the Company determines fair values using various valuation techniques and models based on a range of observable market inputs including pricing models, quoted market price of publicly traded securities with similar duration and yield, time value, yield curve, prepayment speeds, default rates and discounted cash flow. In most cases, these estimates are determined based on independent third party valuation information, and the amounts are disclosed in the Level 2 of the fair value hierarchy. If quoted market prices and independent third party valuation information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. On occasions when pricing service data is unavailable, the Company may rely on bid/ask spreads from dealers in determining fair value.

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Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company generally obtains one quoted market price or dealer quote per instrument. The quotes obtained from dealers or brokers are generally non-binding. When dealer quotations are used, the Company uses the mid-mark as fair value. When broker or dealer quotations are used for valuation or price verification, greater priority is given to executable quotes. As part of the price verification process, valuations based on quotes are corroborated by comparison both to other quotes and to recent trading activity in the same or similar instruments. Historically, the Company has not experienced a circumstance where it has determined an adjustment to a quote or price received from an independent third party valuation source is required. To the extent the Company determines a price or quote is inconsistent with actual trading activity observed in that investment or similar investments, or if the Company does not think the quote is reflective of the market value for the investment, the Company would internally develop a fair value using this observable market information and disclose the occurrence of this circumstance.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Short-term Investments

Short-term investments consist of certificates of deposit and are carried at cost, which approximates fair value. The term of these certificates is one year or less.

Grants Receivable

Unconditional grants are recognized as revenue in the period the commitment is received. Unconditional grants to be received over a period of time in excess of one year are recorded at fair value at the date of the grant based upon the present value of payments to be received.

Contract Services Revenue and Related Receivables

Contract services revenue is recognized in the period services are rendered. For related receivables, no allowance for doubtful accounts has been deemed necessary. Management determines the allowance by reviewing all outstanding amounts on a monthly basis, identifying troubled accounts and using historical experience applied to an aging of accounts. Contract receivables are written off when deemed uncollectible. Recoveries of contract receivables previously written off are recorded when received.

Loan Receivable from Affiliate

The Company entered into a loan with ECD Chase, LLC (Chase), a company that began operations in 2007. The loan matures in 2027 with quarterly principal payments of \$250,000 scheduled to begin in January 2015. Interest at a fixed rate of 6.25 percent is due quarterly. The Company serves as the non-member manager of Chase. Chase does not have a board of directors and has only one investor member.

Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale are carried at the lower of aggregate cost or market value since the Company has the intent to sell these loans in the foreseeable future. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to expense. Gains and losses

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Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans. All mortgage loans are collateralized by the related residence of the borrower.

Other Loans

Other loans consist of commercial and consumer mortgage loans not held for sale and are stated at the amount of unpaid principal less the allowance for loan losses. The commercial loans are typically collateralized by property, equipment, inventories, and/or receivables with loan-to-value ratios from 50 percent to 100 percent and are generally guaranteed by the principals of the borrower. Interest income is computed on the loan balance outstanding and is accrued as earned. The Company generally discontinues the accrual of interest and recognizes income only as received on all loans past due 90 days or more. A loan may also be placed in non-accrual status when, in management's judgment, the collection of interest is doubtful. All interest accrued but not collected for loans that are placed in non-accrual status or charged off is reversed through interest income unless management believes the accrued interest is recoverable through the liquidation of collateral. When material, the net amount of nonrefundable loan origination fees and direct costs associated with the lending process is deferred and accreted to interest income over the lives of the loans using a method that approximates the interest method.

A loan is considered impaired when it is probable, based on current information and events, that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired commercial loans are measured by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses. Interest on accruing impaired loans is recognized as long as such loans do not meet the criteria for nonaccrual status.

Other loans also include forgivable mortgage loans that are made to accommodate the financial needs of Home Again's customers. The terms of these loans differ significantly from traditional mortgage loans since they are forgivable over a stated period of time, typically ten years, and become due only on the sale or transfer of the residence. No principal or interest payments are therefore received for loans made under the Home Again program. Persons receiving loans under the program offered by Home Again must meet certain eligibility requirements and agree to occupy the residence for a stated period of time. Home Again holds a secured interest in the property funded until the occupancy period is met. At such time, the interest in the property is transferred to the borrower. No allowance for credit losses has been deemed necessary based on the forgivable nature of the loans and management's evaluation of the excess of the value of the collateral securing the loans over the unforgiven portion of the mortgage loans. During the years ended December 31, 2010 and 2009, Home Again recorded approximately \$224,000 and \$232,000, respectively, in debt forgiveness related to mortgage loans made under the program. Under the program, as of December 31, 2010, Home Again has a conditional promise to forgive approximately \$225,000 each year for the next seven years, with the remaining loan balance scheduled to be forgiven in 2017.

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Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable loan losses related to specifically identified loans (the specific component) and for losses inherent in the loan portfolio that have been estimated as of the balance sheet date (the general component). The specific component relates to loans that are classified as doubtful, substandard or specially mentioned. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors and includes an unallocated component to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, growth and composition of the loan portfolio, economic conditions and other relevant factors. The allowance is increased by provisions for loan losses charged to expense.

Debt Securities Held as Investments

Debt securities, all of which are classified as available-for-sale, are carried at fair value based on quoted market prices. Unrealized gains and losses are therefore included in the change in net assets. The primary components that determine a security's fair value are its coupon rate, maturity and credit characteristics. The Company holds these securities as part of its asset/liability strategy and they may be sold as a result of changes in interest rate risk, prepayment risk or other similar economic factors. Realized gains and losses on sales are computed based on the cost of specific securities sold.

Premiums and discounts on investment securities are recognized as adjustments to interest income by the interest method over the period to maturity and adjusted for prepayments as applicable. The specific identification method is used to compute gains or losses on the sale of these assets. Security purchases and sales are accounted for on the trade date.

Property and Equipment

Property and equipment are stated at cost, if purchased, and estimated fair value at the date received, if donated to the Company. Depreciation on property and equipment is calculated principally by the straight-line method over the estimated useful lives of the assets which generally range from three to 39 years.

The carrying value of long-lived assets is reviewed if facts and circumstances indicate a potential impairment of carrying value may have occurred utilizing relevant cash flow and profitability information. Impairment losses are recorded when the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts.

Foreclosed Property

Foreclosed property consists of properties repossessed by the Company on foreclosed loans. These assets are stated at the lower of the outstanding loan amount (including accrued interest, if any) or fair value at the date acquired less estimated costs to sell. Losses arising

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Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

from the acquisition of such property are charged against the allowance for loan losses. An additional charge to expenses is made to reflect declines in value resulting from subsequent valuations of the property. Gains and losses resulting from disposition of such property are recognized currently in the changes in net assets.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are due January 31, 2011, and may renew upon agreement of both parties. The borrowings are collateralized primarily by securities of the U.S. government or its agencies. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the borrowing. The terms of the repurchase agreement may require the Company to provide additional collateral if the fair value of the securities underlying the borrowing declines during the term of the agreement. As of December 31, 2010 and 2009, the Company had pledged securities with a fair value of \$1,013,000 and \$1,272,000, respectively, as collateral under the agreement.

Funds Held in Escrow

Funds held in escrow are required to be held in accordance with provisions of the MDCIIC note. Any funds received but not loaned to eligible borrowers are subject to being returned to the Federal Department of Housing and Urban Development.

Income Taxes

The Company and Home Again have received rulings from the Internal Revenue Service for exemption from income taxes as public charities under Internal Revenue Code Sections 501(c)(3) and 509 (a)(2). Since ECDI, ECDA, ECDNM, ECD Plus, ECD Central, ECD First, and ECDNM3 are limited liability companies, no income taxes are provided. The results of operations are reportable by the LLC members on their individual income tax returns. BIDCO and MDCIIC are subject to income taxes at the corporate level. As such, deferred income taxes relate to temporary differences between assets and liabilities of BIDCO and MDCIIC that are recognized differently for financial reporting purposes and income tax purposes. Deferred tax assets and liabilities pertain to net operating loss carryforwards, the allowance for loan losses and unrealized gains on securities. A valuation allowance of approximately \$1,431,000 and \$1,908,000, respectively, was recorded at December 31, 2010 and 2009, to offset the net deferred tax assets. The valuation allowance is established to provide for amounts that management considers may not be realized as a result of income limitations. At December 31, 2010, BIDCO and MDCIIC have net operating loss carryforwards of approximately \$4,236,000 that will begin to expire in 2021.

Potential exposures involving tax positions taken that may be challenged by taxing authorities contain assumptions based upon past experiences and judgments about potential actions by taxing jurisdictions. Management does not believe that the ultimate settlement of these items will result in a material amount. With minimum exceptions, the Company is no longer subject to income tax examinations prior to 2007.

Reclassifications and Summarized Financial Information

Certain reclassifications have been made in the 2009 financial statements to conform to the method of presentation used in 2010. The consolidated statement of activities and changes in net assets includes certain prior-year comparative information in total but not by net asset class.

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Notes to Financial Statements

NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Future Accounting Standards Updates

In January 2010, the FASB issued new authoritative accounting guidance under ASC Topic 820, *Fair Value Measurements and Disclosures*, for improving disclosures about fair value measurements. This update requires companies to disclose, and provide the reasons for, all transfers of assets and liabilities between the Level 1 and 2 fair value categories. It also clarifies that companies should provide fair value measurement disclosures for classes of assets and liabilities which are subsets of line items within the balance sheet, if necessary. In addition, the update clarifies that companies provide disclosures about the fair value techniques and inputs for assets and liabilities classified within Level 2 or 3 categories. The disclosure requirements prescribed by this update are effective for fiscal years beginning after December 15, 2009. This update also requires companies to reconcile changes in Level 3 assets and liabilities by separately providing information about Level 3 purchases, sales, issuances and settlements on a gross basis. This provision of this update is effective for fiscal years beginning after December 15, 2010.

In July 2010, the FASB issued new authoritative accounting guidance under Accounting Standards Update (ASU) NO. 2010-20, *Receivables (Topic 310) – Disclosure about the Credit Quality of Financing Receivables*, which requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 becomes effective for the Company as of December 31, 2011.

The Company is in the process of evaluating the impact, if any, the adoption of these future accounting standards updates will have on its consolidated financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

At December 31, 2010, the only financial instruments carried at fair value in the accompanying balance sheets were debt securities held as investments, collateral-dependent impaired loans and certain foreclosed property. Debt securities held as investments are measured at fair value on a recurring basis with changes in fair value recognized as a change in net assets, whereas impaired loans and foreclosed property are carried at fair value on a non-recurring basis and are written down to fair value only upon initial recognition or subsequent impairment. At December 31, 2010, impaired loans with a carrying value of \$4,376,644 were reduced by

Hope Enterprise Corporation

(Formerly, Enterprise Corporation of the Delta)

Notes to Financial Statements

NOTE 2 – FAIR VALUE MEASUREMENTS (Continued)

specific valuation allowance allocations totaling \$936,540 to a total reported fair value of \$3,440,104. At December 31 2009, impaired loans with a carrying value of \$4,606,218 were reduced by specific valuation allowance allocations totaling \$1,406,702 to a total reported fair value of \$3,199,516. Fair value amounts are based on internally developed collateral valuations. The average balance of impaired loans at December 31, 2010, was approximately \$3,320,000.

The fair value measurements by input level follow:

<i>December 31, 2010</i>	Total	Level 1	Level 2	Level 3
As measured on a recurring basis:				
Debt securities	\$ 3,214,776		\$ 3,214,776	
As measured on a non-recurring basis:				
Impaired loans	\$ 3,440,104			\$ 3,440,104
Foreclosed property	\$ 189,843			\$ 189,843
<i>December 31, 2009</i>				
As measured on a recurring basis:				
Debt securities	\$ 3,463,983		\$ 3,463,983	
As measured on a non-recurring basis:				
Impaired loans	\$ 3,199,516			\$ 3,199,516
Foreclosed property	\$ 2,490,940			\$ 2,490,940

NOTE 3 – CONCENTRATION OF CREDIT RISK

The Company maintains cash balances at a financial institution in excess of insured limits by approximately \$12,550,000 at December 31, 2010. The Company also maintains cash balances at a security brokerage firm where no amounts were in excess of insured limits at December 31, 2010. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

NOTE 4 – GRANTS RECEIVABLE

The Company's management anticipates grants receivable will be received and available for support of the Company's programs as follows:

<i>December 31,</i>	2010	2009
Receivable in less than one year	\$ 496,830	\$ 1,371,830
Receivable in one to five years	125,000	250,000
	621,830	1,621,830
Less adjustment to reflect grants receivable at fair value at the date of grant, based on 3.1% (2010) and 1.7% (2009) discount rates	(3,647)	(30,589)
	\$ 618,183	\$ 1,591,241

Hope Enterprise Corporation

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Notes to Financial Statements

NOTE 5 – DEBT SECURITIES HELD AS INVESTMENTS

Investment securities are presented in the financial statements at fair value and are summarized as follows:

<i>December 31,</i>	Cost 2010	Fair Value 2010	Cost 2009	Fair Value 2009
U.S. Government and federal agencies	\$ 1,747,921	\$ 1,766,268	\$ 1,745,850	\$ 1,776,234
Corporate debt securities	50,043	50,082	259,288	259,748
Asset and mortgage-backed securities	593,636	615,448	627,431	652,478
Municipal bonds	748,772	782,978	748,324	775,523
	\$ 3,140,372	\$ 3,214,776	\$ 3,380,893	\$ 3,463,983

NOTE 6 – LOANS AND COMMITMENTS

The Company makes loans to small businesses located in rural, economically disadvantaged areas of Mississippi, Louisiana and Arkansas. Such loans, the proceeds of which normally provide working capital and equipment financing to undercapitalized businesses that may be unable to obtain credit from conventional financing sources, have a higher than typical degree of risk.

Loans other than consumer mortgage loans held for sale and the loan receivable from affiliate consisted of the following:

<i>December 31,</i>	2010	2009
Commercial loans	\$ 37,536,361	\$ 27,960,395
Forgivable mortgage loans held by Home Again	1,423,400	1,647,142
Consumer mortgage loans not held for sale	140,268	351,913
Allowance for loan losses	(1,605,492)	(2,177,654)
	\$ 37,494,537	\$ 27,781,796

Loan commitments are made to accommodate the financial needs of the Company's customers. These arrangements have credit risk essentially the same as that involved in extending loans to customers of commercial banks and are subject to the Company's normal credit practices. The Company's maximum exposure to credit loss for loan commitments (including unused lines of credit) was \$4,672,000 and \$11,011,000 at December 31, 2010 and 2009, respectively.

As part of a special lending program implemented in 2005 to provide emergency loans to hurricane Katrina victims, Hope and the Company earmarked approximately \$2,200,000 for the establishment of emergency bridge loans to members in the affected areas. The Company provided funding of approximately \$1,500,000 and agreed to guarantee the non-payment of any loans funded through these proceeds. Hope had loans outstanding under this program and guaranteed by the Company of approximately \$9,000 and \$46,000 at December 31, 2010 and 2009, respectively. During 2009, approximately \$11,000, of grant funds were transferred to Hope to satisfy the Company's recourse obligation. No grants were transferred to Hope to satisfy recourse obligations during 2010.

Hope Enterprise Corporation

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Notes to Financial Statements

NOTE 6 – LOANS AND COMMITMENTS (Continued)

Transactions in the allowance for loan losses are summarized as follows:

<i>December 31,</i>	2010	2009
Balance at beginning of year	\$ 2,177,654	\$ 1,942,981
Provisions (reduction in reserve) charged to program expense	(202,202)	715,555
Loans charged off and foreclosed	(369,960)	(480,882)
Balance at end of year	\$ 1,605,492	\$ 2,177,654

Approximately \$805,000 and \$1,929,000 of the allowance for loan losses relates to non-accrual loans at December 31, 2010 and 2009, respectively. The Company had non-accrual loans with 24 customers totaling approximately \$4,206,000 at December 31, 2010, and non-accrual loans with 21 customers totaling approximately \$3,173,000 at December 31, 2009. The Company had no impaired loans in addition to these non-accrual loans. The amount of interest income recognized on impaired loans was not material. There were no loans which were accruing and past due 90 days or more. The Company determines delinquency status based on recent payment history.

NOTE 7 – SECONDARY CAPITAL OF HOPE FEDERAL CREDIT UNION

Secondary capital of Hope are loans that require principal repayments beginning in 2012, unless Hope (i) is unable to fully service existing senior indebtedness, (ii) is unable to satisfy its operating expenses, or (iii) does not have available cash flows for the withdrawals of funds for the account. If such loans are not required to be repaid, they will be recognized as expense in the period the losses are incurred. The advances include a fixed rate loan at 5.45% for \$4,050,000 with quarterly principal payments of \$250,000 beginning in 2015 and three variable rate loans aggregating \$8,925,000 with interest floors and caps from 5% - 10.9%, maturing in 2024 – 2025, with principal payments required each year until maturity. Two additional loans with fixed rates of 3% totaling approximately \$141,000 mature in 2012 and 2013. Interest income received from Hope relative to the secondary capital loans approximated \$760,000 and \$911,000 for the years ended December 31, 2010 and 2009, respectively.

Maturities of secondary capital loans at December 31, 2010 are scheduled as follows:

2011	\$ 591,276
2012	1,213,604
2013	1,105,550
2014	2,378,500
2015	3,677,500
Thereafter	4,150,000
	\$ 13,116,430

In addition, the Company incurred expenses approximating \$2,804,000 and \$5,166,000 relative to its obligation to reimburse certain operating expenses of Hope and incurred approximately \$438,000 in 2010 and \$286,000 in 2009 for grants to Hope. Accounts payable to Hope for grants and contractual services aggregated approximately \$1,325,000 and \$726,000 at December 31, 2010 and 2009, respectively.

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Notes to Financial Statements

NOTE 8 – FORECLOSED PROPERTY

An analysis of foreclosed property follows:

<i>December 31,</i>	2010	2009
Balance at beginning of year	\$ 2,874,067	\$ 3,050,056
Transfer from loans	67,479	666,671
Carrying value of foreclosed property sold	(1,359,671)	(131,340)
Impairments recognized	(759,084)	(711,320)
Balance at end of year	<u>\$ 822,791</u>	<u>\$ 2,874,067</u>

NOTE 9 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>December 31,</i>	2010	2009
Computer equipment	\$ 1,749,804	\$ 1,604,884
Office equipment and other	525,496	497,705
Building and improvements	1,583,262	1,556,212
Construction in progress	310,418	-
	<u>4,168,980</u>	<u>3,658,801</u>
Accumulated depreciation	(1,804,276)	(1,356,279)
	<u>\$ 2,364,704</u>	<u>\$ 2,302,522</u>

NOTE 10 – EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan (the “Plan”) for all employees. The Company discontinued matching employee contributions during 2009. Prior to the discontinuance, the Company contributed to the Plan up to a maximum amount of 12% of each employee's salary through Company matching and an annual discretionary contribution. Expenses of the Plan approximated \$52,000 in 2009. In 2011, the Company began contributing, on a discretionary basis, 100% of the first 4% contributed by each employee.

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Notes to Financial Statements

NOTE 11 – NOTES PAYABLE

Notes payable consisted of the following:

<i>December 31,</i>	2010	2009
1% notes payable:		
interest due annually and maturing in January 2020	\$ 1,500,000	\$ 1,500,000
interest due quarterly and maturing from 2012 through 2017	3,000,000	3,000,000
Notes payable to banks with interest due quarterly:		
interest payable at 5.61 - 5.75%, maturing in 2011-2015	3,500,000	3,500,000
interest payable at 5.2%, maturing in September 2011	301,484	356,356
interest payable at 6.875%, maturing in September 2014	3,000,000	3,000,000
Notes payable to banks with interest due at maturity:		
interest payable at 6%, maturing in June 2011	1,000,000	-
interest payable at 4%, maturing in April 2011	500,000	-
Note payable to Local Initiative Support Corp. bearing		
interest at 6% with interest due quarterly, maturing 2012-2015	1,000,000	1,000,000
4.25% mortgage payable to Hope Federal Credit Union; monthly		
installments of \$7,773, including interest at prime plus 1.5%,		
payable until final balloon in December 2020	1,202,900	-
6% mortgage note payable to bank; monthly installments of \$7,713,		
including interest, payable until final balloon in November 2010	-	1,205,633
6.25% note payable to a bank, payable in monthly		
installments of \$23,325 through August 2010	-	168,211
6.25% note payable to a bank, payable in monthly		
installments of \$9,498 through May 2011	46,737	-
MDCIIC note payable to Leflore County bearing interest at a		
blended fixed rate of 5.48%, \$250,000 principal paid annually,		
maturing August 2023	4,500,000	4,750,000
Note payable to Mennonite Economic Development Associates		
bearing interest at 4% due quarterly, maturing October 2010	-	300,000
Note payable bearing interest at 4.25%, maturing March 2014	250,000	250,000
3% notes payable:		
interest due quarterly and maturing 2014 through 2016	1,000,000	1,000,000
interest due annually and maturing in December 2015	500,000	500,000
Interest free note payable and maturing May 2011	1,050,000	-
Other notes payable, with interest at 1% to 3%	300,000	310,000
Total notes payable	\$ 22,651,121	\$ 20,840,200

Notes payable maturities at December 31, 2010 are as follows:

2011	\$ 3,973,221
2012	2,070,000
2013	2,085,000
2014	5,047,000
2015	1,548,000
Thereafter	7,928,000
	\$ 22,651,221

Interest paid approximated \$989,000 and \$1,009,000 in 2010 and 2009, respectively.

Hope Enterprise Corporation

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Notes to Financial Statements

NOTE 12 – NON-CONTROLLING INTEREST AND NET ASSETS

ECDI has issued 220 Class A units at \$25,000 per unit. The owners of the Class A units may elect three of the seven members of the management committee of ECDI. The other four members are appointed by the Company, the sole Class B unit holder. The Company is the sole managing member of ECDA and elects three of the five board of directors of ECDNM. ECDA is the primary investing member of ECDNM. The Company is the sole managing member of ECD Plus, ECD First, ECD Central and ECDNM3 and elects two of the three board of directors of each company. Although the Company controls the board of directors of these entities, the Company has only a minor investment in these entities and thus receives minimal allocations of earnings or losses. Further, the Company received no distributions from these entities during 2010 and 2009.

The changes in non-controlling interest for the years ended December 31, 2010 and 2009 follow:

	Balance January 1, 2010	Investor Contributions	Dividends Paid	Net earnings (loss)	Net unrealized gains	Balance December 31, 2010
ECDI	\$ 1,541,068	\$ -	\$ -	\$ 427,525	\$ 1,249	\$ 1,969,842
ECDA	6,114,134	-	(220,725)	396,734	-	6,290,143
ECD Plus	7,733,424	-	(344,622)	256,977	-	7,645,779
ECD First	2,388,028	-	-	(13,766)	-	2,374,262
ECD Central	5,000,000	-	(29,190)	29,190	-	5,000,000
ECDNM3	-	9,000,000	-	(223,153)	-	8,776,847
	<u>\$ 22,776,654</u>	<u>\$ 9,000,000</u>	<u>\$ (594,537)</u>	<u>\$ 873,507</u>	<u>\$ 1,249</u>	<u>\$ 32,056,873</u>

	Balance January 1, 2009	Investor Contributions	Dividends Paid	Net earnings (loss)	Net unrealized gains	Balance December 31, 2009
ECDI	\$ 2,243,431	\$ -	\$ -	\$ (704,248)	\$ 1,885	\$ 1,541,068
ECDA	5,634,899	-	(255,725)	734,960	-	6,114,134
ECD Plus	7,432,986	-	(81,463)	381,901	-	7,733,424
ECD First	2,398,003	-	(7,600)	(2,375)	-	2,388,028
ECD Central	-	5,000,000	(15,321)	15,321	-	5,000,000
	<u>\$ 17,709,319</u>	<u>\$ 5,000,000</u>	<u>\$ (360,109)</u>	<u>\$ 425,559</u>	<u>\$ 1,885</u>	<u>\$ 22,776,654</u>

Dividends in arrears relative to the ECDI Class A units totaled \$114,775 at December 31, 2010 and 2009. Temporarily restricted net assets include approximately \$420,000 of net assets of Home Again at December 31, 2010 and 2009, and approximately \$2,067,000 (2010) and \$2,332,000 (2009) for financial assistance programs offered by the Company. Permanently restricted net assets include approximately \$693,000 at December 31, 2010 and 2009 of revolving loan funds available to customers of the Company.

Hope Enterprise Corporation
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Schedule of Expenditures of Federal Awards
for Year Ended December 31, 2010

Federal Grantor / Program Name	CFDA Number	Expenditures
U.S. Department of Housing and Urban Development:		
Community Development Block Grants - Entitlement Grants/Passed from:		
Louisiana Housing Finance Agency	14.228	\$ 538,155
Mississippi Development Authority	14.228	116,187
Total U.S. Department of Housing and Urban Development		654,342
U.S. Environmental Protection Agency:		
Brownsfield Technical Training	66.814	428,666
Total U.S. Environmental Protection Agency		428,666
U.S. Department of The Treasury:		
Community Development Financial Institutions Fund	21.020	750,000
Total U.S. Environmental Protection Agency		750,000
Total Federal Awards		\$ 1,833,008

See accompanying notes to financial statement.

Hope Enterprise Corporation
(formerly, Enterprise Corporation of the Delta)

Notes to the Schedule of Expenditures of Federal Awards
for Year Ended December 31, 2010

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule includes all federal programs administered by Hope Enterprise Corporation. Federal programs included in the accompanying schedule are accounted for using the accrual basis of accounting, whereby revenues are recognized in the accounting period in which they are earned and expenses are recognized when services or benefits are received. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

We have audited the financial statements of Hope Enterprise Corporation ("the Company"), formerly, Enterprise Corporation of the Delta, as of and for the year ended December 31, 2010, and have issued our report thereon dated August 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs (finding 2010-01 and 2010-02) that

we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Car. Riggs & Ingram, LLC

Ridgeland, Mississippi
August 19, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

To the Board of Directors
Hope Enterprise Corporation
Jackson, Mississippi

Compliance

We have audited the compliance of Hope Enterprise Corporation ("the Company"), formerly, Enterprise Corporation of the Delta, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the Company's major federal programs for the year ended December 31, 2010. The Company's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Company's compliance with those requirements.

In our opinion, the Company complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Section III of the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the Company is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Company's internal control over compliance that could have a direct and material effect on a major federal program in order to determine our auditing procedures for expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over compliance that we consider to be a significant deficiency as described in Section III of the accompanying schedule of findings and questioned costs. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Company's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Company's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the management and board of directors of the Company, others within the entity, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Care, Rigg & Ingram, LLC

Ridgeland, Mississippi
August 19, 2011

Hope Enterprise Corporation
(formerly, Enterprise Corporation of the Delta)

Schedule of Findings and Questioned Costs

For the year ended December 31, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified
not considered to be material weakness(es)? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness identified? No

Significant deficiency(ies) identified
not considered to be material weakness(es)? Yes

Type of auditors' report issued on compliance
for programs audited: Unqualified

Any audit findings disclosed that are required to be reported in
accordance with Circular A-133 (section .510 (a))? No

Identification of program(s) audited:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster Number</i>
14.228	Community Development Block Grants
66.814	Brownsfield Technical Training
21.020	Community Development Financial Institutions Fund

Section II – Financial Statement Findings

See following pages.

Section III – Federal Award Findings and Questioned Costs

See following pages.

**Hope Enterprise Corporation
(formerly, Enterprise Corporation of the Delta)**

Schedule of Findings and Questioned Costs

For the year ended December 31, 2010

Section II – Financial Statement Findings

2010-01: Internal Control over Financial Reporting

Finding Type: Significant Deficiency

Questioned Cost: None

Condition and Cause

During the current year, the Company recorded the receipt of certain non-governmental grant funds as grant revenue. The grant funds received were actually the return of grant funds from a grantee for a temporary bridge loan. This receipt of funds should have been used to reduce the loan receivable balance instead of being recognized as grant income.

Effect

As a result, grant income was overstated.

Recommendation

Management should ensure that a review of all grant receipts and loan payments is performed to properly distinguish between the two types of receipts.

Name(s) of Contact Person(s) Responsible for Corrective Action:

Mike Wilbanks

Management Response

This was an unusual transaction that should have received a more thorough review process.

2010-02: Internal Control over Loan Analysis and Evaluation

Finding Type: Significant Deficiency

Questioned Cost: None

Condition and Cause

During our review of loans receivable and the allowance for loan losses, it was noted that general reserves were not provided for certain loans in accordance with loan grading criteria assigned to that loan because of a separate individual loan analysis that was performed.

Effect

The absence of this documentation may not allow management to fully evaluate and assess the borrower's ability to repay under contractual terms.

Hope Enterprise Corporation
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Schedule of Findings and Questioned Costs

For the year ended December 31, 2010

Recommendation

Management should clearly document how their loan portfolio assessment is performed, whether a general reserve is being provided based on loan grading policies or whether a specific reserve is provided based on an individual loan review, and should maintain detail documentation supporting the reserve analysis. In addition, certain loans receivable loan and credit files did not contain updated appraisals, business and personal financial statements, guarantor documents, or other pertinent loan related information.

Name(s) of Contact Person(s) Responsible for Corrective Action:

Mike Wilbanks

Management Response

Management has changed its control process for loan grading and evaluation to provide for a range of reserves and an explanation of why the amount selected is appropriate.

Hope Enterprise Corporation
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Schedule of Findings and Questioned Costs

For the year ended December 31, 2010

Section III – Federal Award Findings

2010-03: Internal Control over Cash Management

Finding Type: Significant Deficiency

Questioned Cost: None

Condition and Cause

During the current year, the Company recorded the receipt of certain non-governmental grant funds as grant revenue. The grant funds received were actually the return of grant funds from a grantee for a temporary bridge loan. This receipt of funds should have been used to reduce the loan receivable balance instead of being recognized as grant income.

Effect

Failure to establish formalized procedures between transfer of funds and disbursement could result in a material noncompliance finding and subject the Company to liabilities related to the return of earned interest.

Recommendation

No recommendation is deemed necessary since the Company corrected the findings in December 2010 and began depositing all drawdowns into a non-interest bearing account.

Name(s) of Contact Person(s) Responsible for Corrective Action:

Mike Wilbanks

Management Response

We agree with the finding. The depository account has been changed to be a non-interest bearing account.

Hope Enterprise Corporation
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Summary Schedule of Prior Findings and Questioned Costs

For the year ended December 31, 2010

Finding Title: Internal Control over Cash Management

Reference Number: 2009-01

Initial Year of Finding: Year Ended December 31, 2008

Amount of Questioned Costs in Finding: None

Status of Questioned Costs: N/A

Program Name(s): Community Development Block Grant

Federal Grantor Agency: U.S. Department of Housing and Urban
Development

CFDA Number(s) 14.228

Status of Finding: Fully Corrected